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CAN COOPERATIVES MEET THE CHALLENGE?

INFORMATION 53
FARMER COOPERATIVE SERVICE • U.S. DEPARTMENT OF AGRICULTURE

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
Washington, D.C. 20250

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives, and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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Cooperative leaders have been in the vanguard in efforts to develop organizations that can serve modern society effectively while preserving the characteristics that have made farmer cooperatives uniquely democratic institutions in a free capitalistic economy. These efforts have included delineation of the basic reason for existence of farmer cooperatives. Just why do we have or need cooperatives today?

Answers to three questions supply a clue. The following discussions address themselves to those three questions. The questions are: (1) Can cooperatives grow big enough to compete effectively in today's economic climate of bigness and still remain essentially democratic institutions? (2) can cooperatives help farmers stay in business and retain control of farming? and, (3) can cooperatives help increase net incomes of farmers?

These three questions constitute the challenge facing farmer cooperatives today. In the following pages, staff members of Farmer Cooperative Service give their views as they discuss Can Cooperatives Meet the Challenge?

I . . . IDENTIFICATION OF CHALLENGES FIRST STEP

By Joseph G. Knapp, Administrator

Cooperatives must identify the challenges if they are to intelligently meet them. The one great challenge of controlling significance may be expressed like this.

Sharing Government Responsibilities

Will farmer cooperatives be able to take over certain responsibilities now assumed by Government in supply control and price support?

On the basis of long experience I am inclined to be cautious on this challenge. While cooperatives can do a great deal more than they have done to date to relieve Government of responsibilities in maintaining a healthy agricultural industry, there is a limit to what they can do as voluntary organizations without the mandatory and finance powers of Government.

In the 1920's Aaron Sapiro led a crusade to build commodity marketing cooperatives designed to achieve orderly marketing through iron-clad controls. The cooperatives fashioned under his influence failed to achieve the results he anticipated.

The Federal Farm Board in 1929 also attempted to build cooperatives strong enough to achieve price stabilization--with $500 million to help do the job--but the Board had no power to control production. Although some good work was done by the Board in promoting agricultural cooperation, the Board failed in its major objective.

In 1933 cooperative leaders accepted the fact that economic salvation for farmers could not be achieved without Government assistance in production control, and the Agricultural Adjustment Act program was the result.

The cooperatives then proceeded to strengthen themselves as business organizations rather than fritter away their power in attempting to do a job that was beyond their capacity.

It may be argued that times have changed so drastically in the past 30 years that cooperatives can now do what couldn't be done in these bygone years. I am inclined to agree with this view up to a certain point. They can, and will be able to, do much more than they have ever been able to do before--but I don't think they will be able to meet all of the responsibilities now assumed by Government in the foreseeable future.

I am not saying that they will not be able to relieve Government of many responsibilities as they grow in power and competence. I am simply saying that cooperatives must not undertake to deliver beyond their capacity. It is my view that as cooperatives develop capacity, they can and should assume more responsibility.

Meeting Basic Agricultural Needs

I would thus like to focus attention on building cooperatives that can do more to meet the agricultural needs of the Nation. I would like to see cooperatives grow from strength to strength--leaving it to the future to determine just how much of a job in ensuring agricultural health will be left for Government as the representative of all the people.

On the basis of long observation of cooperative growth in all parts of the Nation and abroad, and on the basis of many studies of the Farmer Cooperative Service, I am convinced that cooperatives have done a good job of meeting reasonable challenges, and that they are, as a result, in a strong position to meet the oncoming challenges that confront them.

A few years ago the question of the day was "Who will control farming?" I said at that time, "If the farmer controls integration the farmer will control agriculture."

I believe that this point is still pertinent. Farmers must control their farms--and in my mind cooperatives are essential if they are to do so. But, I don't think that this implies that cooperatives must have 100 percent control. It may be that 10, 20, 30 or 50 percent of the control of a crop or an industry will provide an adequate measure of control.

I believe that cooperatives would be wise not to undertake more than they can handle. Cooperatives have developed a great deal of bargaining power and they are capable of developing much more of it. I want to keep the focus on attainable achievements for voluntary, democratically controlled organizations of farmers. If we reach too far, we may pull over the cupboard.

Adjusting to Structural Changes

What are some of the challenges that cooperatives can meet--which they have not yet fully met?

In response I believe that cooperatives can develop bigness without losing democratic control. I believe they can develop executives capable of giving the leadership demanded. I believe they can gain recognition and understanding as instruments of private enterprise before the bar of public opinion in the United States.

We are going through a structural revolution in agriculture and cooperatives are being tested--and will be tested--as never before.

We have 9 percent fewer cooperatives now than we had a dozen years ago, although the volume of cooperative business has expanded by some 70 percent. In another 25 years we may have only half as many cooperatives as we have today, but I would estimate that they will be doing far greater volumes of business. Moreover, I anticipate that the cooperatives that do survive will be part of systems of cooperatives. Even today we have few cooperatives that exist entirely independent of other cooperatives.

Why do I believe that cooperatives are not going out of business--why are they going to be of much greater importance in the future than in the past?

My answer is that farmers need them and will continue to need them. Cooperatives provide a method of organizing farmers for their self-protection. Farmers are not going to turn their back on a good thing.

I am frequently dismayed by the extent to which some farmers and farm leaders and even some agricultural economists fail to recognize what is happening before their eyes. Cooperatives have become major industrial concerns which render invaluable services to farmers and the Nation--and still myopia prevents many people from seeing them for what they are. Cooperatives are one of the purest forms of capitalistic private enterprise. When is it going to be realized that cooperatives pay their fair share of income taxes, and are not exempt from the anti-trust acts?

I don't believe that some people will ever see the light until the light is brought to them--and it must be a searchlight at that. The cooperatives can bring this light to bear and they must do so until people recognize simple facts and give up the myths fed them by interested parties.

Every week or so a pamphlet comes to my office extolling the virtues of our American system of free enterprise. Such pamphlets are usually issued by large corporations which have made good but are fearful that the populace is losing respect for the old-time virtues of rugged independence and is slipping toward socialism. They reiterate the same points over and over again. The interesting thing to me is that these pamphlets never say a kind word about agricultural cooperatives as a distinctive form of private enterprise. In fact, cooperatives seem to be a form of private enterprise that they would like to sweep under the rug and keep out of sight like a poor relation at a debutante's coming-out party.

Cooperatives are just as respectable as any other form of business enterprise. The profit motive operates in cooperatives as well as in other forms of business--but the profits go to the members who are the users and owners rather than simply to the investors. Farmers wouldn't support cooperatives unless it paid them to do so--and I think this is an indication that the profit motive applies to them as much as to profit-seeking corporations.

Somehow or other, cooperatives will have to find a way to gain respect as members of the private enterprise fraternity. I am inclined to believe that the only way they will obtain this respect is by demanding it--and by demonstrating through their achievements that they deserve it.

There is no question in my mind as to whether cooperatives can meet the challenges that lie ahead. They have learned how to meet challenges in the hard school of business competition and they have demonstrated that they could grow when confronted by some of the largest and strongest corporations in America. There is a place for agricultural cooperatives in our American free private enterprise system, because they are necessary to the maintenance of a free private enterprise type of agriculture.

I expect cooperatives to steadily improve their position as servants of farmers--and thus as servants of the Nation--for a strong vital agricultural base is essential to a growing and expanding economy.

So I say to the timid and the doubters. How can you say that cooperatives cannot meet the challenges ahead--when they have come so far against such heavy odds? Now that cooperatives are becoming as adept in the skills of large-scale organization as any other form of big business--with good sense and good leadership, and millions of farmers behind them--there is no way for them to go--except up.

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II . . . RESPONSE TO CHANGE AND BIGNESS VITAL

by Martin A. Abrahamsen, Deputy Administrator

When we ask ourselves the question, Will Cooperatives Meet the Challenge, we first need to know what the nature of the challenge confronting them will be in the years ahead.

To me, the challenge is: Operating to increase the net income of members. This means farmers get more for the things they have to sell and obtain supplies at lower costs. For both farmers and non-farm people it means getting various services that otherwise would not be available, or getting them at reduced costs if they are available.

Cooperatives, then, face the same basic challenge in the future that they faced in the day of the Rochdale weavers and of the western pioneers.

But conditions have changed and cooperatives will have to adjust accordingly. They will be confronted with such questions as: How can we most effectively be a part of our business community? As a distinct kind of business, how can we operate to achieve the maximum benefits for farmers and the rest of the rural economy? How can our leadership for the jobs ahead best be selected and developed?

We know, too, that the rate of change is accelerating. Since the end of World War II--only 20 years ago--cooperatives find themselves serving an almost entirely new kind of agriculture. The relationship of agriculture to other segments of the economy also bears little resemblance to that of 20 years ago. Moreover, our international relationships and our social structures have changed just as dramatically. To put this another way, if cooperatives are to meet the challenge effectively they not only must keep up with change, they must anticipate it.

Cooperatives, then, are confronted by the challenge of change on all sides. Let us examine the nature of these changes.

Understand Current Economic and Social Problems.--Cooperative members and employees need to have a high degree of economic understanding to deal with today's problems. This unfortunately often is far from the case. To illustrate, the highly trained pilots who fly our modern jet planes have instruments of extreme delicacy as well as tremendous power at their fingertips. Those who flew the DC-3s could no more handle a modern jet plane than our present day jet pilots will be able to fly the supersonic giants of tomorrow--unless they receive specialized training for the increasingly complex and demanding jobs ahead.

We do not, however, have the same realistic approach when trying to solve our economic problems.

For example, by the end of World War I the United States had become a creditor rather than a debtor Nation. We have demonstrated unparalleled ability to produce--so much so that the average American farmer now produces enough food for himself and 33 other people. We are becoming increasingly dependent on our agricultural exports. As a Nation we have a greater degree of affluence than our fathers or our forefathers ever dreamed we could achieve. At the same time we have just become aware of the deadening effect poverty, neglected educational opportunities, and unemployment or under-employment have on our economy. These fundamental changes suggest that we need to redesign our economic tools if we are to deal with the challenges of tomorrow.

Most people, it seems, fancy themselves as real or potential economic experts when it comes to solving the problems of the day. These "experts," however, would be chagrined if they knew they were using outworn tools of the past century and trying to make them do for an entirely new set of circumstances.

No wonder many find themselves frustrated when they discover that the antiquated ideas they mouth have little, if any, reference to the problems at hand.

We seem too prone to use the dull economic tools of yesterday to meet the changing conditions of today. Too often we still think in terms of adapting man to the machine instead of the machine to man. Likewise, we do not seem to understand that man now has the ability to modify the institutions at his command to make the things happen that he wants to happen. He does not have to sit around and resign himself to letting things happen.

In short, should not cooperative leaders march out ahead? Let others keep up with them--not them with others.

I suggest, therefore, that it is as important for us to retool our thinking for dealing with the economic and social problems of the day as it is for a pilot to keep up to date in the operation of the modern airplane.

Let me put this another way and mention some examples. Americans have been and still are firm believers in what has commonly come to be called "the Protestant ethic," which held that if we feared God and worked hard all would be well with us on this earth and hereafter.

Now we are discovering that hard work is not necessarily the solution to some of our everyday problems. A modern pushbutton plant only requires a few individuals to watch dials and press buttons. Hand labor is necessary only when our machines get out of order--and we can't afford much of that because costs become prohibitive. On the farm the tractor, the combine, and cotton picker combined with the "gadget jungle" of our homes make farm life easier and more pleasant.

If we go back to World War I, we can gain the proper perspective of the tremendous changes that have taken place in our homes. I doubt that many fully appreciate the far-reaching implications that can be traced to electricity in the home and the revolution that has taken place in food processing, packaging, and preparation.

Somewhat facetiously the impacts of change are highlighted in a recent editorial in the New York Times entitled "Rich Richard's Almanac." The editorial suggests that if the boy loafs around he is not necessarily a lazy lout. Rather society has failed to come to grips with the problem of devising ways for him to "effectively use his leisure time."

The editorial also suggests there are some who might consider the saying, "A penny saved is a penny earned," as subversive in 1965 since we now are operating under the assumption that the first duty of a citizen is to consume. On this matter the editorial states that if we really operated on the theory of, "A penny saved is a penny earned," production would fall, salaries would be cut, and the country would stagnate. It suggests that it might be better to say, "A penny spent is not good enough."

We encounter the same trouble with the saying, "A stitch in time saves nine." Just think what this would mean to the stitch makers who are prepared to make the eight other stitches.

Finally, we come face to face with the statement, "Early to bed, early to rise, makes a man healthy, wealthy, and wise." The editorial concludes by saying that this idea "has had its day."

I hasten to add that I am not a believer in planned obsolescence. Also, as an admirer of Ben Franklin, I am sure he would have adjusted to change. The fact remains, however, that the ideas of "yesteryear" often are a dangerous guide for today.

Therefore, I am suggesting that to meet the challenges ahead we have to retool not only in the physical sense--in the sense in which we have improved varieties of crops and better breeds of livestock, modern implements, and the trained personnel to use them--but also in the mental sense--in the sense of planning to acquire the ability to deal with the problems that confront us today, not the problems that were the critical ones 5, 25, or 50 years ago.

The importance of cooperatives in dealing with the problems of the day was recognized in President Johnson's agricultural message to the Congress in which he said:

> "The Congress has repeatedly enacted legislation to encourage farmers to improve their economic position through cooperatives. This encouragement and assistance will be carried out, in terms of both the letter and the spirit of the law."

The National Agricultural Advisory Commission in its report, "Farm Policy in the Years Ahead," also recognized the place of cooperatives in meeting the challenge. It states:

> "Both the opportunities for and the necessity of cooperative action by farmers to assert themselves in the markets in which they deal will increase in the future. A greater proportion of the responsibility for maintaining fair and stable incomes in agriculture can be shifted, selectively and gradually, from strictly Government programs to producers' own efforts as the change occurs. It should be part of our national farm policy to expedite sound developments of this kind in every reasonable way."

Confronting Bigness

Cooperatives are confronted, too, with the necessity for meeting the challenge of bigness. Just one business firm, for example, has a larger annual dollar volume than all 8,800 marketing and farm supply associations combined. In many industries three to six firms hold dominant positions in their fields.

We hear talk about merger and consolidation everywhere. One look at the trends in the business world tells us why. It is only through such efforts that many cooperatives can hope to achieve for their members a position of countervailing power in the market place. Yet bigness for bigness sake is not the answer to problems confronting cooperatives. At all times emphasis needs to be on serving members.

Joseph G. Knapp, Administrator of Farmer Cooperative Service, put this effectively in a recent statement when he said: "The member is king." This is a basic point that cooperative leaders should never lose sight of because members are both owners and patrons.

If we are to keep the interests of members in proper focus, however, we need to understand the implications of important developments both on and off the farm. Let us identify some of these developments.

A. On the Farm.--We have but to look at certain trends in agriculture to realize the nature of the challenge ahead. Some examples are:

1. The tremendous growth of soybean production in our country. We are now the major exporter of soybeans. Before World War II, China supplied 80 to 90 percent of the soybeans. Our production has increased nearly four times since the end of World War II.

2. During the same period we have changed from an importer to an exporter Nation for rice. Perhaps the fact that we can now seed 30 acres an hour by plane has contributed to our present position in this industry.

3. Our livestock industry, be it broiler or beef production, has many of the aspects of a factory. Because of improvements in transportation, persons with relatively few acres yearly can produce millions of broilers and thousands of heads of finished steers for our markets.

4. Gaining in general acceptance is the SPF (specific pathogen free) system of hog production--that dramatically reduces pig losses and increases output per unit of feed.

5. Livestock strains are being improved continually. We are told, for example, that through improvements in artificial breeding, it is now possible for an exceptional bull to service as many as 1,000 or more cows per week.

6. Production per farm worker has increased spectacularly. For example, since World War II, the annual

output of grain per farm worker has tripled--from 3 tons to 9 tons. I am told that this compares with an increase to 1.5 tons per worker in Western Europe. The cotton picker can now pick 15 bales per day, or the equivalent of about 100 laborers.

7. Our capacity to produce has increased spectacularly within the past 10 years. Corn production is up 10 percent and feed production has increased 25 percent; yet the American farmer uses one-third less labor to do this.

These trends largely can be traced to the findings of agricultural research and they are among the most spectacular the world has seen. It is quite evident that "our knowledge of today is obsolete by tomorrow." More and more our farmers are becoming a part of the computer age.

B. Off-the-Farm.--When I was a boy on the farm, our neighbors were mainly concerned with what happened on their own farm. Only the most adventurous speculated on the meaning to them of developments in their local trading center for their county seats. Now some events that happen in the various State capitals, or for that matter, Washington, D.C., may be no more important to American agriculture than developments in Saigon, Moscow, New Delhi, or Rio de Janeiro.

Thus, the challenge ahead for cooperatives is not limited to changes occurring down on the farm. In the interrelated economy in which cooperatives operate, the implications of off-the-farm developments are very important. What are some of these developments?

1. The Western World has dramatically shifted its habits of food consumption. For instance, since the end of World War II, our per capita consumption is down 23 percent for grain, 9 percent for all dairy products, and 14 percent for eggs. It has decreased 40 percent for fresh fruit. It has increased 72 percent for beef and 63 percent for poultry.

2. The effects of automation in industry rival those in agriculture. In 1960 we produced as much steel as in

1950 but with 18 percent fewer workers. During this same decade employment in the aircraft industry dropped 200,000, in the soft coal mining industry 260,000, and in the railroad industry 540,000.

3. As a Nation, we observe the success of the European Common Market and are concerned with the much publicized gold problem. As a Nation, too, we are likely to spend $50 billion within the next 5 years to put a man on the moon. While we don't know what the implications of the research findings necessary to get us to the moon will be as far as economic growth is concerned, cooperative leaders and others should not ignore these developments.

4. Developments in air transportation have been marked. The old DC-3 made several stops and took 24 hours to cross the continent. Jet planes now whisk us across in 5 hours. And now we are even talking about giant supersonic jet planes that will travel faster and carry even more people--2,000 miles per hour and 750 passengers per plane.

Transportation planners also are looking ahead to the possibility of rail transportation of passengers by engines in rocket enclosed tubes. It is even more dramatic to recall that it was less than 20 years ago when planes first broke the sound barrier and now astronauts travel through space at 18,000 miles per hour, about 25 times as fast.

5. As we become increasingly aware of our world relationships, two things seem important. Many newly emerging countries need help, including technical assistance on problems of operating cooperatives. Also, the mature countries presently constitute important markets for our agricultural and industrial goods and emerging countries hold promise of being potentially important markets for our products as their economies improve.

6. There are those who predict that atomic power will be available at half the present cost within a decade. This may make it feasible to desalt ocean water for industrial use as well as irrigation purposes.

7. In the world of communication we talk glibly about subliminal advertising, Telstar, video-telephones, and laser beams that can carry 20 TV channels or 20,000 telephone circuits.

These are just some of the developments on and off the farm that emphasize the continuous need for adjusting to change in the world in which we live. They present challenges to cooperatives that their leaders need to recognize.

Retaining Basic Cooperative Features

Cooperatives have at their disposal a number of effective ways to meet the challenge. It seems to me that the following are among the most important.

Carefully Identify Basic Objectives.--Do those directing cooperative destiny know what they hope to accomplish through cooperative action? Do the cooperatives have objectives and do their leaders know what these objectives are?

The essential point that I would like to stress is that while emphasis is on economic performance, the cooperative, as a business, is member oriented. It is set up to benefit those who use it. It is so organized that its users are the ones who determine broad operating policies. It is so operated that those who use it and who determine operating policies also provide a substantial portion of the finances required. They assume the risks and they realize the benefits or losses.

In these respects the cooperative is a most distinctive kind of business--one that is especially suited to needs of rural people.

Recognize Distinct Cooperative Features.--Cooperatives, in their day-to-day business operations, are confronted with a basic question: Should they seek to market their similarities or their differences as compared with other segments of the economy? Should they tell the world that they are cooperatives or should they only talk about being farmers' businesses?

I would challenge cooperatives on the necessity for recognizing and capitalizing on their distinctive features. If all a cooperative aims to accomplish is to keep up with competition, we might well question its reason for existence.

It seems that the unique and distinguishing features of a cooperative are among its most important assets--assets that can enable it to so adjust and modify methods of operations that it can serve members more effectively than many other types of business.

Recognize Cooperatives Are People, Goods and Services, and Capital.--We have often heard it said that cooperatives are people. This is true but I suggest that these businesses are more than just people.

Cooperative business organizations as an important part of the economy also handle the products, provide the same services, and use the same kind of physical facilities, capital, and credit that other firms do.

We must conclude, therefore, that the cooperative is not just people. Neither is it just cotton, livestock, feed, or fertilizer. Nor is it just dollars and cents. Rather it is a combination of all three of these resources and their interrelationship with each other. Thus the challenge ahead, as it concerns the cooperative as an institution, involves people's relationship to other people, to the products they produce and the goods and services they need, and to capital.

Only by recognizing cooperatives as a "mix" of people, products, and capital can their leaders evaluate operations in terms of changing economic and social conditions and put in motion the forces to best deal with these changes.

Base Decisions on Research.--Our forefathers, and for that matter our fathers, knew very little about research.

To be sure they knew of monks in monasteries and professors within ivy-covered walls who studied the moon and stars; and who for that matter also studied chemistry, physics, and mathematics; and even wrote books on

economics and philosophy. There was little accurate appreciation, however, of how research could be put to practical use in the everyday world.

But things have changed. Now we have research spanning the scope of human interest from problems of agriculture as they relate to plants and animals, to social and economic problems, and on to atomic energy, jet propulsion, and aerodynamics. Also we are directing our research to man himself and we explore such things as human behavior and the human mind.

If we take stock of our situation, we must conclude that it is not a question of whether or not we are going to use research. It is rather a question of how we are going to use it and if we are using it fast enough and competently enough for the cooperatives to meet the challenges ahead.

Use Education To Achieve Progress.--Ironically, in a way we can be thankful to the Russians for launching Sputnik I. This jolted us out of our educational complacency and no longer do we belittle eggheads or make humorous remarks about them. Rather we have begun to realize human progress travels on its store of knowledge--and an educational system second to none is indispensable to progress.

I would like to specifically consider cooperative education. First, no educational or membership program can be effective unless it can be built on efficient cooperative performance. Cooperative leaders on a number of occasions have said, "Public relations is doing a good job and then seeing that you get credit for it." Certainly cooperatives are confronted with a continuing challenge of helping their various publics understand cooperatives and farm problems.

Second, words mean different things to different people. Individual meanings largely become what a person interprets them as being and this is important in developing information for different publics. To me it suggests the importance of recognizing the nature of the climate in which cooperatives are operating and then adjusting efforts to this climate.

For instance, how to undertake the job may well depend on whether or not communications are made in a climate of open-mindedness or hostility. To put this in a somewhat different way, cooperatives may be communicating with people in an atmosphere of encouragement or opposition or in an atmosphere ranging from sympathy to bias.

For our ideas to gain acceptance, therefore, we must recognize the importance of a sense of timing and we must be willing to carefully appraise the atmosphere in which we are communicating. Only by so doing can we expect to launch an effective member and public relations program.

Finding New Ways To Serve

I would like to emphasize the new types of services that rural people may desire and that cooperatives may be able to provide in helping meet new and changing needs.

Credit Developments.--We see on one hand the need for established cooperative credit agencies to deal with the increasingly complex problems of commercial farm operators.

On the other hand, the small farm operators and other rural people also may need cooperatives to provide badly needed credit. In some instances this has focused attention on the place for rural credit unions to provide small amounts of short-term credit. The special credit needs of rural people without established source of credit, for instance, have led to provisions for financing such farmers under the Economic Opportunity Act.

Title III of this Act provides that the Farmers Home Administration can make loans to finance cooperatives when they do not qualify for such loans from the Bank for Cooperatives and when at least two-thirds of those who stand to benefit are low-income rural people. Such loans might be used for a number of purposes--for example, purchasing farm machinery and equipment; furnishing essential processing, purchasing, and marketing services; or providing facilities for low-income rural families.

Recognize Recreation as a Resource.--As we become more socially responsible we also are becoming aware that there may be other opportunities where cooperatives may be useful. Recreation serves as an illustration. For instance, we read that the area from Richmond to Boston soon will include 30 percent of our population and, in effect, substantially be one large city.

As our affluence becomes greater, it is obvious that the interest of people in this area in obtaining increased recreational facilities will be tremendous. In some places farmers are exploring the cooperative techniques for this purpose. Of course, this technique also can be used by the consumers of recreation who may want to set up their own cooperative recreation facilities.

Develop Forestry Potentials.--Half our forestry acreage is represented by small farm holdings. These woodland owners frequently are at a disadvantage in the sale of these products. For this reason increased emphasis is being given by woodland owners to developing cooperative techniques to improve production and management practices, marketing methods, and, in some instances, process wood products.

Search for Other Possibilities.--Commercial farmers as well as part-time farmers and those who live in rural communities may be interested in using cooperatives to deal with any of the wide range of problems that concern them.

The cooperative technique, for example, offers opportunities in dealing with the problem of our growing proportion of senior citizens. Their problems are recognized as increasingly acute and include needs for better medical care, assistance in managing households, providing foods during emergency period of illness, and housing.

III. . . INTERPRETATION OF OLD CHALLENGES IN NEW SETTING NEEDED

by Job K. Savage, Director, Management Services Division

To me the challenge to cooperatives is an old one in a new setting. It is how cooperatives can better serve their members; how they can increase the net income of members. In brief, it is how cooperatives can help farmers get more for the things they have to sell and obtain the supplies and other services at lower cost.

Cooperatives, and those concerned with their progress, are confronted by the challenge of a dynamic society--a society in which rapid change is the rule, not the exception. As we examine these changes what do we interpret from them?

Taking the Broad Overview

I believe that most of us can better understand what is happening in this country if we first look at the many interlocked, yet individual, pieces that make up our whole society. In this overview, we see a country that has prosperity for many, but poverty also for far too many. And almost half of this poverty is in and around towns of under 2,500.

We find shifts in consumer tastes that affect the farmers' markets. We see crop and livestock production centers moving around to different parts of the country--with a corresponding disruption, at least temporarily, of established handling and marketing practices.

The export market, now at a record high of over $6 billion for farm products annually, needs watching, as countries increase their production of certain items we sell them.

The decline of farm influence in legislation and other circles along with the misunderstanding of agriculture's problems is also cause for concern.

We see growth in size of the business unit, be it farm, plant, or retail store. We see retail units becoming more elaborate and more intense in their efforts to by-pass older supply lines and increase direct buying at shipping points.

Marketing systems are steadily increasing the services added to the farmers' raw products through processing, packaging, and mass merchandising.

Thus the farmer sees himself producing less for the older "open" market and more for the buyer who exerts his preferences for grade, quality, strict specifications, and price.

We all know of the need for better coordination--even though cooperatives are providing one mechanism for this. The question is how much more should they and farmers be doing--before it's too late.

I believe cooperatives need to more actively help shape the future efforts to coordinate production and consumption or farmers will be left with no power or even much in the way of independent choices in their farming.

Assessing Farm Needs

As we go next to the farm, we see a fewer number of farmers with larger investments in their operations, much larger acreages, and more crops and livestock to handle per farm. We see farmers under terrific pressures for time, new skills, added knowledge, ways to further automate operations to save their own and hired labor, need for new services on farms--and the kind of management savvy to run this complex operation.

We see farmers paying higher prices for the greatly increased amount and variety of supplies they need to farm in even a fair fashion.

We see them getting prices that may not give them enough money to balance out their investments of money and labor.

At the same time, farm families are accelerating their wants along with the rest of the American consumer--for convenience and some measure of style and comfort in living, for college for the children, and for some of the pleasures that take cash.

All these converging demands on the new farmer--particularly when placed in the context of what is happening over the much broader area--give him reason enough to look around for some way to keep up with the latest in farming, to get a better grasp of skills for the best use of his capital as well as sources of loan funds, to handle his facilities and time well, and, of course, to make more money.

We see also too many other farmers unable to keep the pace of increased needs. They haven't enough acreage to make ends meet, enough resources of capital and knowledge to make vital adjustments.

They find themselves wihout money to buy the necessary machinery, equipment, feed, fertilizer.

Examining Operations

Let's turn now to look at the cooperatives that serve the farmers. Here we see reflections of the farm, the community, and the broader picture. These include: many adjustments and new demands, such as--

- Not enough business knowledge, volume, or capital for the cooperative to operate effectively--at least if it's a small local cooperative going it alone.

- Need for better ways to sell products in a market where buyers get fewer and fewer in number and more and more particular about what they buy.

- More stringent requirements and specifications in what buyers demand from the cooperative in the way of quality, packaging, and merchandising.

- Problems of financing, working out ways to operate in present business and tax structure that will give the members the best returns possible.

- Need for better and less expensive movement of goods back and forth between farm and industrial center--involving the whole complex of transportation and distribution.

- Shifts in rate structures and kind of transportation used that in turn call for large investments by farmers and their cooperatives in new facilities and equipment.

- Continuing need for improved caliber and competence of directors and the membership.

- Not enough highly skilled employees to run the business, to give members sound advice on production techniques and business problems as well as serve them in their marketing and purchasing operations.

- Finally, and this is perhaps one of the biggest danger signals of all, the lack of understanding about cooperatives not only by urban people but by farmers themselves--according to findings of a study in Kansas by Farmer Cooperative Service, Kansas Cooperative Council, and Kansas State University.

These then have been some of the generalized symptoms of the state of health of the farmer, the cooperative, the community, and the entire economy.

Preparing To Meet the Challenge

In preparing to meet the challenge, we must inject new ideas, new ways of thinking. The economic tools of yesterday will not meet the changed conditions of today and tomorrow. We do not seek change just for the sake of change. What we must bring about is purposeful change. What is needed, for example, is change that leads to new approaches in member relations jobs, ways that will reconfirm the farmer's faith in his cooperative.

It means that many cooperatives are going to need to step fast to even keep up in some areas, and much livelier in others to keep the lead time they already have.

It means that some managers need to shake themselves up a bit.

It means that management needs to combine the hard-headed business approach with the keen and sensitive touch cooperatives require for dealing with members, employees, customers or suppliers, and the public.

It means providing a climate where top quality employees can show innovation and creativity in their jobs.

It means establishing an even firmer place in the commercial community--as a business owned and controlled by the farmers.

It means working to change the minds of those in the general public who misunderstand both agriculture and cooperatives and their place and function in our American system.

It means thinking of a cooperative as a democratically controlled business enterprise that is responsive to the needs of its members. Too often a cooperative is thought of as a building, plant, or facility operated by hired management. A cooperative, if it is successful, is more than this.

Improving Public Relations.--I would like to enlarge now on the public relations point just mentioned. I, along with many others, am convinced that one of the principal obstacles in the way of rapid growth of cooperative business is the lack of understanding of cooperatives on the part of the general public. As a start we should make sure that members, potential members, and the general public understand these points about cooperatives--points that are often misunderstood:

- First, that cooperatives are indeed a valuable form of private enterprise not only to farmers but to those they deal with and to the general public.

- Second, that cooperatives are the most democratic of all our forms of business enterprises. Membership

is on a voluntary basis. Voting is most often on a "one-man, one-vote" basis, and in other cases is proportional to patronage or use.

- Third, that cooperatives are of major importance in helping to maintain the family farm and at the same time the freedom cherished by all and particularly farmers.

- Fourth, that cooperatives do pay taxes--all that Federal and State laws require them to pay.

- Fifth, that cooperatives are not exempt from anti-trust laws. The object of Section 6 of the Clayton Act and the Capper-Volstead Act was to make it clear that farmers could form associations without such associations in and of themselves being in violation of the anti-trust laws. But after one has been organized, a farmer cooperative in its conduct and operations is just as answerable and subject to the antitrust laws as any other corporation.

- Sixth, that cooperatives are not favored by Federal Government financing. Most agricultural cooperatives borrow needed capital either from local banks at usual interest rates and terms, or, if eligible, from the banks for cooperatives, a part of the Cooperative Farm Credit System.

Perhaps what has been said up to now has sounded a bit pessimistic. Actually, events are usually never as good as they could be--nor as bad for most of us as we sometimes fear.

Cooperatives have accomplished much. Many of them have been reshaping themselves rapidly and well. For example, farmers are patronizing their cooperatives more than ever before as measured by the business volume of cooperatives. The latest figures available indicate that cooperatives are operating on an all-time high.

And now for the reply to the question--will cooperatives meet the challenge?

My answer is yes, <u>if</u> - if they will realistically and effectively deal with these situations and problems touched on here and others that arise in our fast moving era.

IV. . . ADJUSTMENT OF INTERNAL OPERATIONS

by Homer J. Preston, Director, Purchasing Division

What is the nature of the challenge that causes us to ask the question: Will cooperatives meet the challenge? Does it imply that cooperatives will not be able to increase farmers' income?

Increasing Members' Incomes

Logic suggests that there are only four possible ways in which cooperatives can increase members' income. These are by:

1. Selling farm products at higher prices or purchasing farm supplies at lower prices.
2. Reducing costs of operation.
3. The general level of competition and overall operating practices.
4. Providing services that will permit individual members to reduce costs (or increase volume). (Let us further assume that services include the wide variety of services from quality to credit to supplemental physical services associated with a given product.)

Here the challenge can be visualized in terms of the ability to function effectively in the projected economic setting. I want to emphasize a few characteristics of the economy as the challenge to cooperatives.

Gaining Size and Diversification

Cooperative Size.--Much has been said about mergers, consolidations, and acquisitions. I do not want to dwell on this point except to say that sheer size of operation may well determine types of services that can be offered, the cost structure, and the ability to bargain effectively for prices.

There may still be a place for small specialized cooperatives but note well the potential that sheer size alone offers in generating savings and improving net income of farmers. We see impressive examples where the small, specialized cooperative has served farmers with a dedication of purpose and concentration on clearly-defined objectives to provide a high level of competition.

But the fact remains that bargaining power, economies of scale, and a large array of services give the potential advantages to large-scale organizations. Thus, the challenge--will cooperatives meet the challenge of size by aggressively seeking means to grow?

Further, we must consider that studies of economic growth invariably conclude that external growth (mergers, consolidations, acquisition) are far more successful than internal growth. This, to me, is the basic reason for the emphasis on mergers, consolidations, and acquisitions.

One further point needs emphasis. In considering external growth there is an intangible ingredient of timing. Strictly independent local cooperative operations may be amazingly successful for many years. There may be technological change or a change in trade area and suddenly the local independent cooperative is no longer successful. At some specific time--management has a choice--to merge or not to merge. If the decision is delayed, the local no longer has as strong an economic appeal. It must literally go begging to have someone take over the operation. In an extreme case there is no plausible alternative.

For example, a midwestern dairy cooperative many years ago saw the potential of mergers and actively sought means of attracting other dairy cooperatives into a single organization. Now other nearby cooperatives automatically seek to merge with this strong cooperative.

Cooperative Diversification.--Another dimension of sheer size as a challenge is diversification. Many non-cooperatives have deliberately pursued a policy of acquiring organizations that have only slightly related or

even totally non-related products in relation to the parent company's product. Spreading risk, obtaining high profit potentials, loss position for tax purposes, less concern for anti-trust requirements, and a host of other reasons account for this diversification. The net result is highly diversified organizations competing against cooperatives.

Traditionally, most cooperatives did not diversify. As user-organizations, cooperatives were single commodity or single function types of organizations. We speak of dairy or poultry cooperatives or farm supply or bargaining cooperatives as typical examples. The direct-user influence initially dictated this approach.

Obviously, the challenge to cooperatives becomes: Can such specialized organizations compete or must they diversify? Can the specialized cooperative increase farmers' net income?

Farm Size.--A second dimension of size is the change in size of the farm units served. Much has been said about the growing size of farms. The challenge here is the effect of this changing farm size on cooperative operations. Basically, the large farm unit becomes so attractive to competitors that individual price patterns may develop. This can be either on the marketing or farm supply side--premium for large volume production or discounts for large volume sales.

The problem becomes even more complex if we interject forward pricing on the marketing side or credit (accounts receivable) on the supply side. Ask yourself one question--How will credit be supplied?--and you can visualize the type of problem in developing pricing schedules. In brief, the challenge becomes the realistic proposition that the cooperative cannot afford to lose the large farmer--neither can it make the price and other concessions that may be necessary to hold the large volume farmer.

Stated in another manner, how can cooperatives maintain equitable treatment, retain large volume farmers, and maintain a clearly understood pricing policy? Note the implications to a membership relations program.

Size of Total Economy.--Another dimension of size is the size of our total economy and the requirements of that economy when it is served by large-scale economic units. We need to focus on only one major aspect to highlight that challenge--the need for large volumes on specified bases. We can take as a basic requirement that it will be necessary to supply large volumes with specified grades, delivery schedules, types of containers, and perhaps as many as five or six other requirements. We can immediately conclude that production cannot be a hit-or-miss proposition. It must be planned with clearly-defined responsibility.

This leads us to the further conclusion that cooperatives must accept the challenge that to be an effective force the member and the cooperative must have a mutual responsibility and that the member is closely tied to the cooperative.

I will not detail the other aspects of size that may challenge cooperatives even though some of them may be equally important. I refer to such considerations as member participation, financing, legal, organizational structure, and other aspects. I simply want to again emphasize that size will be a major challenge to cooperatives. Those that do not grow face certain inherent disadvantages--and to again stress that internal growth usually is too slow to keep pace with competitors.

Taking the Positive Approach

We could detail how cooperatives are different, but as a basic premise let us simply say that cooperatives are user-oriented--rather than investment-oriented. Let us simply and frankly accept that cooperatives are different. Since they are different, they are in a position to play a different role and accept different challenges. You know too that among cooperatives there can be tremendous variations. This in turn means that cooperatives may respond differently to varied challenges.

There is one inherent challenge to all cooperatives and that is the type of image they project simply because

they are different. I have not made a detailed study but I am continually impressed by the amount of energy spent in replying to charges or, as we might say, correcting the record. Some charges need to be answered in a vigorous manner. This will be a continuing challenge. However this is what I would term the necessary defensive move.

It seems to me that the real challenge to cooperatives is to seize the initiative. I do not mean an all-out, aggressive campaign but a shift in emphasis detailing the positive contributions to members and to agriculture and rural America. Let me be specific on a few items as suggestions:

Savings to Patrons.--We may be too humble when we speak of savings. Modest savings in both marketing and purchasing activities may constitute a major increase in net farm income. As an example we estimate that on the average, farmers annually spend $4,000 for farm supplies. A savings of 5 percent increases net income $200. If savings of 2 percent are realized on marketing on a volume of $10,000, another $200 is returned to the farmer. Thus, we might point out that the farmer's income has been increased $400 annually. The actual dollar amounts are important to give realism but the basic point is the income effect on, and the service to, agriculture.

Level of Competition.--Many cooperatives can give details on how feed prices in the area jumped $5 a ton overnight when the cooperative mill burned, or fertilizer prices dropped 20 percent in a week when the cooperative began operations, or that strawberry prices dropped 1 cent a pound when the cooperative freezer broke down.

Again the exact price change is not important as such; but the effect upon the local agriculture is important. The positive program is that cooperatives serve agriculture, not the cooperative itself. I believe that a major function of cooperatives is to provide a "watchdog" service to insure that margins do, in fact, reflect a reasonable cost structure.

Providing New and Needed Services.--As user-oriented organizations, cooperatives should accept the challenge of providing new services. I would admit that some risk is involved, but cooperatives are different and should be pace setters in this field. As an example, we see the emphasis on the "war on poverty." Can cooperatives play a meaningful role in alleviating poverty in rural America? Our limited study in this area suggests that it will be a difficult challenge. It will require imagination and resourcefulness.

Continuing Members' Participation

We have emphasized the economic need for large-scale organizations. It is not an unmixed blessing because with the increase of size, all other things being equal, there will be a diminishing of member identification with the cooperative. The general feeling among members may be that I'm just one out of several thousand so I don't really count as I did when I was one of the 25 charter members. Remember, I said this is the feeling, if all other things are equal.

To retain the cooperative character, all other things cannot remain the same.

Large size or simply a growing cooperative may begin to think in terms of: How can the member participation be used to generate even more growth and size? Or bluntly, that the members are just customers. When we reach this point, it is time to take an inventory of the basic problem.

From time to time I reread the famous Hawthorne experiment. As you know the Hawthorne experiment was conducted by a group from Harvard University in the Hawthorne plant of Western Electric. We do not need to detail the findings of this study but I do want to give the broad outline. To determine how plant production might be increased a routine operation was chosen. Two groups of women were selected: A control group where no changes were made and an experimental group where changes were made. Improvements in production were measured

as the difference between the control group and the experimental group.

In the experimental group innovations such as improved lighting, rest periods, and relaxing the restraints on conversation were injected in successive steps. With each innovation, production increased. To confirm the results the improvements were withdrawn one at a time. Contrary to expectation, production continued to increase.

The persons conducting the experiment concluded that it was not the improvements in working conditions but rather that the company had actually selected and shown an interest in the experimental group that caused the increase in production. In brief, it was a positive employee relations program and it paid off in production.

Many of you may know that this is an old experiment conducted in 1928. The point that I want to make as a challenge to cooperatives is that regardless of size the emphasis should be on how the cooperative can serve members, not how members can serve the cooperative. This is accomplished by having programs where the cooperative shows its interest in the members and encourages their active participation. To me, the Hawthorne experiment demonstrates the value of taking a human interest in members. I have seen many member relations programs where this same result has been demonstrated.

Building Cooperative Leadership

Two facts stand out in any successful organization. First, there is a strong leader and, second, the situation determines the type of leader. Not all leaders have the same characteristics. Further, leadership is not a sole responsibility of any one person or any one group. For example, leadership is not confined to the general manager nor to the board president. Rather there is opportunity for leadership at many points at one and the same time, but with certain prescribed limitations. For example, I know of cooperatives where the general manager has the public relations leadership role and overall leadership

responsibility but the assistant general manager is definitely the sales and office leader.

When we review the history of successful individual cooperatives, we are impressed that the type of leadership changes. At one stage we see the idealistic type with tremendous vision for the future. He, in turn, may be followed by the realist--cold, calculating, and dedicated to running a smooth, efficient operation. Later, the leadership may change to the accountant or banker-type who sees financing as the problem.

The challenge to cooperatives is to visualize the needs that may be faced and take steps to develop the necessary leadership for the types of problems that may be facing the cooperative.

We know too that leadership is not just one characteristic or just one method. Rather, it is a blend of characteristics. This is true in any leadership position but it is even more so in a cooperative. A cooperative is not just another business organization, but it is a business organization with a user-orientation. Thus, a leader requires a remarkable blend of the cold business approach and the definitely human approach.

Accepting Change

We now return to the question: Can cooperatives meet the challenge? The answer is generally yes, but realistically we know that all cooperatives will not meet the challenge. If we are blunt we may even have to say that from the farmers' point of view, there is no need for all cooperatives to meet the challenge.

There is no question in my mind, however, that cooperatives as a group will meet the challenge. I have reason for this optimism.

First, and foremost, many of the difficult challenges of the past have been met. This has given cooperatives the experience and "know-how" to assist in meeting future challenges.

Second, cooperatives have accomplished much. Business volume has shown a steady increase. For example, the $14.4 billion in net business for 1963-64 was an all-time high and 4 percent greater than the previous year. This indicates cooperatives can adjust to meet the changes.

Third, cooperatives have played an important role in serving agriculture. The services provided are needed and farmers will not abandon their cooperatives any more than they will abandon any of their other modern tools. As an indication, a larger proportion of farmers are using cooperatives now than at any time in the past.

But cooperatives will not meet the challenge as an automatic reward for past performance. Cooperatives will be abandoned just as horses were abandoned in favor of tractors unless cooperatives change to meet new needs. Farmers still needed power but this did not mean the same thing as needing horses.

I recall rather vividly a cooperative selling potatoes that had experienced a marked decline in volume. In my discussion with the manager it was brought out that the chief method of selling was by rail and in carlots. I inquired about trucks. I was told that selling by trucks was not reliable--that you just could not readily divert to other points; or conversely you had no direct control after the trucks were on the highway.

I looked out the window and saw two trailer truckloads of potatoes stopped at a light. A non-cooperative brand name was on the side of the truck. I asked if competitors used trucks for selling potatoes. The answer, "Oh yes, but it won't last. They'll find out that isn't the way to sell potatoes." I regret to report that this cooperative literally saw potatoes go by its main office in trucks and still would not change its method of operation. Farmers still grow potatoes in that area. But they no longer market through a cooperative. It's out of business.

I deliberately selected this illustration not as scare propaganda but to illustrate that no matter how good and